GRUMMAN
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Flexible benefits on tap for '85

• A 29-year-old engineer just had braces put on her teeth — work that was foregone during her childhood because her family couldn't afford it. She looks forward to the day when she'll be able to flash a bright, toothy smile, even though between the orthodontist's fee, the surgeon's fee for removing two teeth, and all the filing and bonding that will be done once the braces come off, the total bill will be over $3,000.

• A 32-year-old executive secretary was recently divorced and received custody of her four-year-old son. However, she must now pay for a large portion of the child care costs — over $5,000 per year — since her child support allotment only covers a fraction of it.

• A 40-year-old riveter, his wife, and their three preteenaged children all wear glasses. Between the optometrists' bills, the cost of replacing the kids' glasses when they break (frequently), as well as new prescriptions, the man shells out a pretty substantial amount of cash each year.

Under a new, optional benefit program to be introduced by Grumman during 1985, all of the above people will be able to pay some of their out-of-pocket medical and dependent care expenses with pretax income.

Actually, four new optional benefits will be offered in 1985: two flexible spending accounts, one for medical expenses and the other for dependent care, and an option for Grumman Aerospace employees to buy extra vacation. A legal assistance plan is to be announced at a later date. The new benefits are all intended to give each employee more of an opportunity to custom tailor his or her benefits package to meet individual needs. For the facts on buying extra vacation, read the article on page 4 of this special issue.

Flexible spending accounts have become a popular item in the last two years, ever since the Internal Revenue Service authorized them through Section 125 of the tax code. FSAs are now in place at over 100 firms nationwide. Medical FSAs cover a host of out-of-pocket health care expenses for the participant and his or her dependents, including health maintenance organization (HMO) enrollment fees, major medical deductibles and copayments (the percentage of the bill, usually 20 percent, that the insured pays), and items not covered by either the health insurance or dental plans.

The dependent care FSA will cover day-to-day care of a custodial nature — such as day care or babysitting for children, and home nursing care for adult dependents.

All four new benefits are entirely optional; the FSAs are funded through salary reduction. Each fall, Grummanites will decide whether they wish to participate, and if so, how much of their money should be earmarked for any of the spending accounts. During the subsequent year, a salary reduction will be made from each paycheck of the preselected amount.

Since the money is a salary reduction, it lowers taxable income and thus brings about a tax savings. The general rule of thumb is, whatever tax bracket an individual is in (e.g. 30 percent) would also be the percentage of the out-of-pocket expense that he would save using pretax income.

"Overall, everyone at Grumman gives benefits a very high mark," says Dan Knowles, vice president, Personnel

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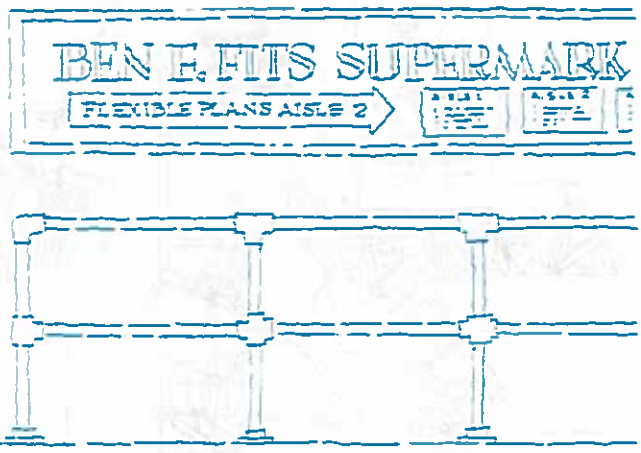

What you should know about FSAs

If an employee designates $500 for 1985 FSA and incurs all $500 in January, can he be reimbursed immediately, or must he wait until all 52 week deductions are taken?

Reimbursements will be made monthly and one need not wait until the end of the year for payment. Claims may be submitted as long as expenses exceed $100.00, except at year end.

Are my other benefits adversely affected by the salary reduction?

No, all company provided benefits which depend on salary — pension, EIP, life insurance, etc. — will be based on full/unreduced salary.

Will my FSA have any effect on social security contributions (FICA)?

Under present IRS guidance salary reductions for the FSA will not be subject to social security tax (FICA).

If a husband and wife both work at Grumman, can they both set up FSA accounts?

Yes.

If my spouse or dependents have other health insurance coverage. . .

A. Can premiums be paid out of an FSA?

Yes.

B. How would coordination of benefits and the FSA work together?

It will generally be best to allow all medical insurance plans to pay before submitting unpaid amounts to the FSA.

Will the Flexible Spending Account be administered by Grumman, or by a private carrier (Travelers)? If so, who pays the cost?

The Travelers will administer the FSA account. The company will pay all administrative costs.

If I am audited by the IRS who is responsible to justify expenses?

The employee is required to justify expenses as in any IRS audit.

Will Grumman provide a statement of benefits?

Travelers has been hired by Grumman to administer the account(s) and will provide a detailed statement with each payment.

What happens to the forfeited money?

When an employee elects to open an FSA he chooses to exchange a taxable item (cash/salary) for a non-taxable benefit (reimbursement for medical and dependent care expenses). If he fails to use the non-taxable benefit, he loses it and forfeits any further reimbursement.

What if my expenses exceed my Flexible Spending Account?

The only expenses payable from an FSA are amounts up to the annual account balance. Expenses in excess will be paid on an after tax basis by the employee.

Who qualifies as a dependent for purposes of establishing a Health FSA?

Generally, a dependent is your spouse, or someone that qualifies as a dependent for IRS purposes. (Consult your IRS tax return instruction sheet for a more complete definition.)

Must I specify the kind of medical expenses to be reimbursed from the FSA?

No. You must elect how much you wish to contribute to the health FSA, but you do not need to specify expenses. Estimating expenses will be important, however, in determining how much to allocate to the account.

Do over-the-counter drugs or vitamins qualify for reimbursement under the FSA?

Yes, if prescribed by a qualified physician for a specific medical condition.

Would the Flexible Spending Account cover cosmetic surgery?

Yes.

Who qualifies as a dependent for purposes of establishing a Dependent Care FSA?

Generally, for dependent care, a dependent is a child under age 15, a disabled spouse, or a disabled relative or household member who is dependent on you for at least one-half of his or her support. (Consult your IRS tax return instruction sheet or IRS publication 503 for a more complete definition).

Where must the care of the dependent take place?

Services may be provided inside or outside your home for a dependent under age 15. For all other qualified dependents expenses will be reimbursed for such expenses if such dependent regularly spends at least eight hours each day in the household.

If you set up an account for dependent care, does that affect what you can deduct on your income tax?

Yes. The dependent care tax credit available on an individual tax return (form 1040) and the use of an FSA are two methods of gaining certain tax benefits. You cannot apply both to the same expenses. You will need to consider how to use this technique to your best advantage. (IRS publication 503 discusses dependent care expenses in detail).

Does (summer) camp qualify for this pre-tax fund?

Yes, only for dependent children under age 15.

To establish a dependent care FSA is it necessary that my spouse be employed?

Your spouse must be employed, or be actively looking for employment, or a full time student, or be physically and mentally disabled. Note that the amount that can be contributed to the FSA by an employed individual cannot exceed the *lesser* of your incomes. If your spouse is disabled or a student, the law assumes that your spouse has a monthly income of $200 if you have one dependent, or $400 if you have two or more dependents.

New benefits

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and Administration. "But the Employee Attitude and Behavior Survey also revealed that they want more benefits, and that their wants and needs are extremely diverse. A person who's single and 25 years old has very different needs from someone who's 45 with two children in college. And that person in turn has different needs from a 50-year-old employee thinking about retirement. . .Years ago, when the Grumman benefits package was first designed it was designed with the average Grummanite in mind. But today, you'd be hard pressed to find anyone who fits that label."

Knowles adds that paying for optional benefits with pretax income is the best way to meet the needs of such a diverse group — and also the fairest. "Benefits costs keep going up and up," he remarks. "For example, health care costs have risen at percentage rates close to three times that of inflation, and as these costs have gone up, so too has the cost of providing group insurance and other benefits. We have now reached the point where benefits costs are so high that we cannot retain a competitive position and keep adding new and better benefits every year.

"Child care is one area that we've been asked many times to provide as a fringe benefit," he says. "The problem always was, how do you provide this benefit fairly? Is it fair to provide a benefit to people with children, and not to those who are childless? Another issue was where the child care facility could be located. It wouldn't be a good idea to have kids waking up at 5:30 in the morning to commute with mom or dad to Bethpage.

"We feel the dependent care account is one way to provide relief to those people who have to pay for child care in order to work. Take a two-income couple. Chances are, they're in the 50 percent tax bracket. With a dependent care account, they could possible save several thousand dollars a year in child care costs."

Another rule of thumb: generally, anything in the health or dependent care area that you can list on your income tax return may be covered by a flexible spending account. If a person does decide, however, that these accounts are the way to go, such expenses may not be itemized on his or her yearly income tax return. But since medical and dependent deduction expenses only

New benefits options make debut

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produce a tax savings after exceeding certain percentage levels, flexible accounts may be more beneficial.

The tricky part is determining the right amount of money to be earmarked for each account, and then using it up by the end of the year. The Internal Revenue Service views such accounts as insurance policies, so the employee does not receive a refund of the unused portion at the end of the year, nor is it carried over into the next.

The rules also stipulate that amounts preselected for either medical or dependent care are not interchangeable. The combined contribution to the two accounts cannot be less than $3 or more than $115 per week (an annual maximum of $5,980.).

In addition to those items mentioned earlier in this article, the following items would be covered by a flexible spending account for medical care: prescription drugs, eye exams, eyeglasses, hearing aids, fees to doctors and hospitals, routine physicals, orthodontia, health insurance premiums, nursing care, oxygen equipment, transportation expenses related to illness, dental expenses not covered by the dental plan, and other medical goods and services.

The Federal government will let someone change or terminate flexible spending accounts whether for health or dependent care only when life status changes, for example by marriage, divorce, death of a dependent, birth or adoption of a child, or termination of a spouse's employment.

Reimbursement will be made after a claim is filed. As for all such claims, the person will be required to provide appropriate receipts.

Any full-time employee may set up either type of account. Personnel and Administration has sent a series of flyers to Grummanites' homes describing the new benefits, and inviting them to sign up. The deadline is November 2.

Knowles says the new benefits programs are just the beginning — new features may be added each year, and will probably be funded the same way — through salary reductions and therefore with pretax dollars.

"We've been investigating flexible benefits since 1980," Knowles says. "This is only the beginning. We plan to keep adding to the flexible benefits program. We're looking at post-retirement benefits especially, such as prefunded, post-retirement health insurance. You could call it a type of 'medical IRA.'

"Of course, all of these new items would be very complex to set up. With all the laws and government regulations changing from year to year, we may see a few changes," he continues. "But I feel flexible benefits is an idea that's hear to stay."

The question-and-answer section accompanying this article should assist you in comprehending the new benefits program. If you're still baffled and bedazed, feel free to call Personnel Relations at Ext. (111) 5321.

Wanna buy a week off?

Planning a marathon trip through world capitals next summer? Or do you just need a few extra days off each year? If you're one of those people for whom vacation is never long enough, you'll be interested in a new benefit Grumman Aerospace will offer beginning January, 1985.

Beginning then, you will be able to buy an extra week's vacation each year, via the deduction of a week's pay. That amount will be based on your existing weekly pay rate in effect on December 31. It will be deducted from your paycheck in 52 weekly installments over the course of the year, starting in January.

Grummanites may only purchase a week — nothing more and nothing less. They may use the time only during the calendar year for which it was purchased. However, the time may be taken in half-day, whole day, or multiple day segments.

Be aware that the extra vacation is a "use it or lose it" benefit. The person *must use* the extra week within the year, or he or she will lose it and will not be reimbursed for it. However, this extra week will be used first. That way, the person could elect to carry over half his regular vacation days to the next calendar year, in the same way as now.

For those who are eligible for more than three weeks vacation, the present benefit allowing vacation days to be sold will continue.